

City of Rockville, Maryland

Comprehensive

Annual Financial Report

Part II

Financial Section

Fiscal Year 2001
July 1, 2000 - June 30, 2001



INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor, Members of the City Council and City Manager
City of Rockville, Maryland

We have audited the accompanying general purpose financial statements of the City of Rockville, Maryland, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Rockville, Maryland's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Rockville, Maryland, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2001, on our consideration of the City of Rockville, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Rockville, Maryland. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The statistical data listed in the table of contents is presented for the purpose of additional analysis and is not a part of the general purpose financial statements of the City of Rockville, Maryland. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Frederick, Maryland
October 11, 2001

General Purpose Financial Statements

These statements provide a summary overview of the financial position of all Funds and Account Groups and the operating results by Fund Types. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF ROCKVILLE, MARYLAND

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2001

(With Comparative Totals for 2000)

	Governmental Fund Types.....				.....Account Groups.....				Totals (Memorandum Only)	
	General	Special	Debt	Capital Projects	Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust	General	Long-Term Debt	2001	2000
		Revenue	Service				Fixed Assets			
Assets and Other Debits										
Equity in pooled cash and cash equivalents (Note 2)	\$11,256,633	\$ 492,059	\$1,295,787	\$ -	\$14,515,202	\$ -	\$ -		\$ 27,559,681	\$ 27,249,865
Investments (Note 2)	-	-	-	-	-	48,099,276	-	-	48,099,276	47,715,480
Property taxes receivable, net (Note 3)	251,795	-	-	-	-	-	-	-	251,795	356,798
Accounts receivable, net	641,753	176,814	-	-	2,238,225	-	-	-	3,056,792	2,826,350
Interfund receivable (Note 4)	712,612	-	-	-	-	-	-	-	712,612	532,662
Due from other governments (Note 5)	2,472,145	-	-	-	-	-	-	-	2,472,145	1,187,820
Assessments receivable	-	-	29,117	-	19,371	-	-	-	48,488	44,807
Other assets	1,184,729	18,309	76,135	41	273,134	-	-	-	1,552,348	1,137,913
Unbilled assessments receivable	-	-	2,984,813	-	660,680	-	-	-	3,645,493	4,006,845
Notes receivable	-	-	-	-	-	-	-	-	-	660,000
Fixed assets, net (Note 7)	-	-	-	-	35,522,697	-	41,647,002	-	77,169,699	75,174,771
Purchased capacity, (Note 6)	-	-	-	-	13,787,998	-	-	987,622	13,787,998	12,202,502
Amounts available for retirement of debt	-	-	-	-	-	-	-	-	-	-
Amounts to be provided for compensated absences and retirement of debt	-	-	-	-	-	-	-	18,587,498	18,587,498	19,984,077
Total assets and other debits	\$16,519,667	\$ 687,182	\$4,385,852	\$ 41	\$67,017,307	\$48,099,276	\$41,647,002	\$19,575,120	\$197,931,447	\$195,610,167
Liabilities, Equity and Other Credits										
Liabilities										
Accounts payable	\$ 854,185	\$ 37,510	\$ -	\$ 852,490	\$ 1,975,037	\$ -	\$ -	\$ -	\$ 3,719,222	\$ 3,222,475
Interfund payable (Note 4)	-	415,375	-	198,604	98,633	-	-	-	712,612	532,662
Accrued liabilities	795,799	41,503	-	-	677,721	-	-	1,471,013	2,986,036	2,903,274
Deferred revenue	1,444,576	277,850	3,013,930	7,500	78,435	-	-	-	4,822,291	5,529,504
Retainages payable	-	-	-	208,462	21,273	-	-	-	229,735	529,529
Deposits and other liabilities	424,036	16,210	384,300	-	12,227	-	-	-	836,773	790,650
Special assessment debt with governmental commitment (Note 8)	-	-	-	-	8,701,478	-	-	18,104,107	-	290,000
Long-term debt (Note 8)	-	-	-	-	\$11,564,804	\$ -	\$ -	\$19,575,120	26,805,585	29,368,337
Total liabilities	\$ 3,518,596	\$ 788,448	\$3,398,230	\$ 1,267,056	\$11,564,804	\$ -	\$ -	\$19,575,120	\$ 40,112,254	\$ 43,166,431
Equity and Other Credits										
Contributed capital (Notes 10 & 11)	-	-	-	-	23,485,649	-	-	-	23,485,649	23,887,878
Investment in general fixed assets	-	-	-	-	-	-	41,647,002	-	41,647,002	39,832,626
Retained earnings:										
Reserved for debt payment (Note 11)	-	-	-	-	378,517	-	-	-	378,517	378,517
Unreserved	-	-	-	-	31,588,337	-	-	-	31,588,337	29,299,088
Fund balances: (Note 11)										
Reserved for encumbrances	312,731	-	-	4,673,454	-	-	-	-	4,986,185	1,857,117
Reserved for self insurance deposit	261,393	-	-	-	-	-	-	-	261,393	261,393
Reserved for inventory	259,586	-	-	-	-	-	-	-	259,586	262,146
Reserved for advance	350,000	-	-	-	-	-	-	-	350,000	350,000
Reserved for debt service	-	-	987,622	-	-	-	-	-	987,622	2,530,277
Reserved for employees' pension benefits	-	-	-	-	-	48,099,276	-	-	48,099,276	47,715,480
Unreserved:										
Designated for future expenditures	2,316,817	-	-	-	-	-	-	-	2,316,817	1,940,671
Undesignated	9,500,544	(101,266)	-	(5,940,469)	-	-	-	-	3,458,809	4,128,543
Total equity and other credits	\$13,001,071	\$ (101,266)	\$ 987,622	\$ (1,267,015)	\$55,452,503	\$48,099,276	\$41,647,002	\$ -	\$157,819,193	\$152,443,736
Total liabilities, equity and other credits	\$16,519,667	\$ 687,182	\$ 4,385,852	\$ 41	\$67,017,307	\$48,099,276	\$41,647,002	\$19,575,120	\$197,931,447	\$195,610,167

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances All Governmental Fund Types For the Year Ended June 30, 2001 (With Comparative Totals for 2000)

	Governmental Fund Types.....				Totals	
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only) 2001	2000
Revenue						
Property taxes	\$18,438,498	\$ -	\$ -	\$ -	\$18,438,498	\$17,329,261
Assessments	-	-	436,751	-	436,751	443,801
Revenue from other governments:						
Community development block grant	-	435,289	-	-	435,289	303,854
Income taxes	6,957,578	-	-	-	6,957,578	4,867,201
Gas and motor vehicle taxes	2,339,566	-	-	-	2,339,566	2,263,596
County tax duplication payment	1,611,274	-	-	-	1,611,274	1,334,996
Admissions and amusement taxes	1,076,387	-	-	-	1,076,387	856,964
Grants and other governmental revenue	1,330,371	-	-	617,699	1,948,070	2,088,799
Licenses and permits	1,928,888	-	-	-	1,928,888	1,645,335
Charges for services	3,749,763	1,398,956	-	417,466	5,566,185	3,957,871
Use of money and property	1,314,273	39,092	90,801	1,543	1,445,709	1,292,664
Fines and forfeitures	10,858	-	-	-	10,858	13,224
Other revenue	2,321,500	313,039	-	-	2,634,539	1,658,659
Total revenue	\$41,078,956	\$2,186,376	\$ 527,552	\$ 1,036,708	\$44,829,592	\$38,056,225
Expenditures						
Current operations:						
General government	\$ 7,248,426	\$ -	\$ -	\$ -	\$ 7,248,426	\$ 7,241,808
Community development block grant	-	435,289	-	-	435,289	303,854
Community development	1,082,130	468	-	-	1,082,598	868,509
Community services	1,196,384	200,181	-	-	1,396,565	771,131
Public safety	5,791,473	-	-	-	5,791,473	5,614,447
Public works	4,459,354	-	-	-	4,459,354	4,410,505
Recreation and parks	10,166,794	973,042	-	-	11,139,836	10,022,854
Nondepartmental	1,518,305	-	-	-	1,518,305	1,815,626
Capital outlay	-	-	-	6,544,678	6,544,678	8,138,472
Debt service	-	-	3,886,011	-	3,886,011	4,058,912
Total expenditures	\$31,462,866	\$1,608,980	\$ 3,886,011	\$ 6,544,678	\$43,502,535	\$43,246,118
Excess (deficiency) of revenue over expenditures	\$ 9,616,090	\$ 577,396	\$(3,358,459)	\$(5,507,970)	\$ 1,327,057	\$(5,189,893)
Other Financing Sources (Uses)						
Operating transfers in	-	50,000	3,815,804	5,028,706	8,894,510	6,320,588
Operating transfers out	(6,359,620)	(571,682)	(2,000,000)	-	(8,931,302)	(6,427,787)
Proceeds from the sale of general obligation bonds	-	-	-	-	-	1,023,639
Total other financing sources (uses)	\$(6,359,620)	\$(521,682)	\$ 1,815,804	\$ 5,028,706	\$ (36,792)	\$ 916,440
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$ 3,256,470	\$ 55,714	\$(1,542,655)	\$ (479,264)	\$ 1,290,265	\$(4,273,453)
Fund balances at beginning of year	9,744,601	(156,980)	2,530,277	(787,751)	11,330,147	16,182,310
Residual equity transfer (Note 11)	-	-	-	-	-	(578,710)
Fund balances at end of year	\$13,001,071	\$(101,266)	\$ 987,622	\$(1,267,015)	\$12,620,412	\$11,330,147

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances Revised Budget (GAAP Basis) and Actual General, Special Revenue, and Debt Service Funds For the Year Ended June 30, 2001

	.....General Fund.....			.....Special Revenue Funds.....			.....Debt Service Fund.....		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenue									
Property taxes	\$17,953,996	\$18,438,498	\$ 484,502	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-	-	-	437,065	436,751	(314)
Revenue from other governments:									
Community development block grant	-	-	-	1,107,242	435,289	(671,953)	-	-	-
Income taxes	5,780,000	6,957,578	1,177,578	-	-	-	-	-	-
Gas and motor vehicle taxes	2,285,938	2,339,566	53,628	-	-	-	-	-	-
County tax duplication payment	1,644,274	1,611,274	(33,000)	-	-	-	-	-	-
Admissions and amusement taxes	823,000	1,076,387	253,387	-	-	-	-	-	-
Grants and other governmental revenue	1,186,615	1,330,371	143,756	-	-	-	-	-	-
Licenses and permits	1,598,510	1,928,888	330,378	-	-	-	-	-	-
Charges for services	3,182,466	3,749,763	567,297	1,449,500	1,398,956	(50,544)	-	-	-
Use of money and property	1,090,429	1,314,273	223,844	7,545	39,092	31,547	100,000	90,801	(9,199)
Fines and forfeitures	12,200	10,858	(1,342)	-	-	-	-	-	-
Other revenue	2,316,362	2,321,500	5,138	342,176	313,039	(29,137)	-	-	-
Total revenue	\$37,873,790	\$41,078,956	\$3,205,166	\$2,906,463	\$2,186,376	\$(720,087)	\$ 537,065	\$ 527,552	\$(9,513)
Expenditures									
Current operations:									
General government	\$ 8,219,695	\$ 7,248,426	\$ 971,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Community development block grant	-	-	-	1,107,242	435,289	671,953	-	-	-
Community development	1,007,241	1,082,130	(74,889)	30,000	468	29,532	-	-	-
Community services	1,227,615	1,196,384	31,231	453,519	200,181	253,338	-	-	-
Public safety	5,822,500	5,791,473	31,027	-	-	-	-	-	-
Public works	4,805,832	4,459,354	346,478	-	-	-	-	-	-
Recreation and parks	10,478,064	10,166,794	311,270	978,075	973,042	5,033	-	-	-
Nondepartmental	3,115,134	1,518,305	1,596,829	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	4,444,295	3,886,011	558,284
Total expenditures	\$34,676,081	\$31,462,866	\$3,213,215	\$2,568,836	\$1,608,980	\$ 959,856	\$ 4,444,295	\$ 3,886,011	\$558,284
Excess (deficiency) of revenue over expenditures	\$ 3,197,709	\$ 9,616,090	\$ 6,418,381	\$ 337,627	\$ 577,396	\$ 239,769	\$(3,907,230)	\$(3,358,459)	\$548,771
Other Financing Sources (Uses)									
Transfer from general fund	-	-	-	50,000	50,000	-	3,815,804	3,815,804	-
Transfer to capital projects fund	(2,457,024)	(2,457,024)	-	(571,682)	(571,682)	-	(2,000,000)	(2,000,000)	-
Transfer to debt service fund	(3,815,804)	(3,815,804)	-	-	-	-	-	-	-
Transfer to refuse fund	(36,792)	(36,792)	-	-	-	-	-	-	-
Transfer to special activities fund	(50,000)	(50,000)	-	-	-	-	-	-	-
Total other financing sources (uses)	\$(6,359,620)	\$(6,359,620)	\$ -	\$(521,682)	\$(521,682)	\$ -	\$ 1,815,804	\$ 1,815,804	\$ -
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	\$(3,161,911)	\$ 3,256,470	\$ 6,418,381	\$(184,055)	\$ 55,714	\$ 239,769	\$(2,091,426)	\$(1,542,655)	\$548,771
Fund balance at beginning of year	9,744,601	9,744,601	-	(156,980)	(156,980)	-	2,530,277	2,530,277	-
Fund balance (deficit) at end of year	\$ 6,582,690	\$13,001,071	\$6,418,381	\$(341,035)	\$(101,266)	\$ 239,769	\$ 438,851	\$ 987,622	\$548,771

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Fund Type For the Year Ended June 30, 2001 (With Comparative Totals for 2000)

	<u>2001</u>	<u>2000</u>
Operating Revenue		
Charges for services	\$13,217,337	\$12,454,697
Other revenue	974,010	538,849
Total operating revenue	<u>\$14,191,347</u>	<u>\$12,993,546</u>
Operating Expenses		
Treatment and purification	\$ 997,485	\$ 1,139,141
Distribution	639,714	593,768
Collection and disposal	4,522,883	4,702,256
Customer billing, collection and operating expenses	4,375,511	3,763,128
Repairs and maintenance	455,585	438,627
Total operating expenses	<u>\$10,991,178</u>	<u>\$10,636,920</u>
Operating income before depreciation and amortization	\$ 3,200,169	\$ 2,356,626
Less depreciation and amortization	<u>(1,927,793)</u>	<u>(1,795,579)</u>
Operating income	\$ 1,272,376	\$ 561,047
Nonoperating Income (Expenses)		
Interest income	976,118	882,113
Interest expense	<u>(410,353)</u>	<u>(443,664)</u>
Nonoperating income, net	<u>\$ 565,765</u>	<u>\$ 438,449</u>
Income before operating transfers	\$ 1,838,141	\$ 999,496
Operating Transfers In		
Operating transfers in	36,792	107,199
Total operating transfers in	<u>\$ 36,792</u>	<u>\$ 107,199</u>
Net income	\$ 1,874,933	\$ 1,106,695
Depreciation charged directly against contributed capital	402,229	402,230
Increase in retained earnings	<u>\$ 2,277,162</u>	<u>\$ 1,508,925</u>
Retained earnings at beginning of year	29,677,605	28,412,402
Residual equity transfer (Note 11)	<u>12,087</u>	<u>(243,722)</u>
Retained earnings at end of year	<u>\$31,966,854</u>	<u>\$29,677,605</u>

See the accompanying notes to the general purpose financial statements.

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CITY OF ROCKVILLE, MARYLAND

Combined Statement of Cash Flows Proprietary Fund Type For the Year Ended June 30, 2001 (With Comparative Totals for 2000)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Cash received from customers	\$14,104,396	\$13,100,542
Cash payments to suppliers for goods and services	(6,287,797)	(5,592,651)
Cash payments to employees for services	<u>(5,143,935)</u>	<u>(4,890,580)</u>
Net cash provided by operating activities	\$ 2,672,664	\$ 2,617,311
Cash flows from noncapital financing activities:		
Cash received from general fund	<u>135,425</u>	<u>107,199</u>
Net cash provided by noncapital financing activities	\$ 135,425	\$ 107,199
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,074,127)	(3,711,377)
Purchased capacity cost	(1,607,628)	(1,480,396)
Principal paid on general obligation bond maturities and equipment contracts	(817,293)	(810,797)
Interest paid on general obligation bonds and equipment contracts	(391,058)	(385,413)
Proceeds (including interest) from special assessments	240,619	357,918
Proceeds from the sale of bonds	<u>898,119</u>	<u>1,675,235</u>
Net cash (used) by capital and related financing activities	\$(3,751,368)	\$(4,354,830)
Cash flows from investing activities - interest on investments	<u>685,081</u>	<u>865,274</u>
Net (decrease) in cash and cash equivalents	\$ (258,198)	\$ (765,046)
Cash and cash equivalents at beginning of year	<u>14,773,400</u>	<u>15,538,446</u>
Cash and cash equivalents at end of year	<u><u>\$14,515,202</u></u>	<u><u>\$14,773,400</u></u>

(Continued)

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Cash Flows (Continued) Proprietary Fund Type For the Year Ended June 30, 2001 (With Comparative Totals for 2000)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2001</u>	<u>2000</u>
Operating income	\$1,272,376	\$ 561,047
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,927,793	1,795,579
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	(199,191)	71,430
Increase (decrease) in accounts payable	(119,152)	298,042
Increase (decrease) in accrued liabilities	15,166	(88,454)
Increase in deferred revenue	5,105	13,637
(Decrease) in retainages payable	(229,433)	(16,288)
(Decrease) in deposits and other liabilities	<u>-</u>	<u>(17,682)</u>
Total adjustments	<u>\$1,400,288</u>	<u>\$2,056,264</u>
Net cash provided by operating activities	<u>\$2,672,664</u>	<u>\$2,617,311</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Net Assets Pension Trust Funds June 30, 2001 (With Comparative Totals for 2000)

	2001			
	Defined Contribution Option	Defined Benefit Option	Total	2000
<u>Assets</u>				
Investments at fair value - equity in pooled pension trust fund	<u>\$5,654,299</u>	<u>\$42,444,977</u>	<u>\$48,099,276</u>	<u>\$47,715,480</u>
<u>Liabilities</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Net Assets</u>				
Available for plan benefits	<u>\$5,654,299</u>	<u>\$42,444,977</u>	<u>\$48,099,276</u>	<u>\$47,715,480</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Changes in Net Assets Pension Trust Funds For the Year Ended June 30, 2001 (With Comparative Totals for 2000)

	2001			2000
	Defined Contribution Option	Defined Benefit Option	Total	
<u>Additions</u>				
Contributions				
Employer	\$ 307,694	\$ 783,638	\$ 1,091,332	\$ 1,033,809
Plan members	627,910	554,294	1,182,204	1,142,527
Total contributions	<u>\$ 935,604</u>	<u>\$ 1,337,932</u>	<u>\$ 2,273,536</u>	<u>\$ 2,176,336</u>
Investment Income				
Net appreciation (depreciation) in the fair value of plan investments	\$ -	\$(1,806,184)	\$(1,806,184)	\$(1,756,038)
Interest and dividends	(242,042)	2,407,363	2,165,321	1,815,294
Total investment income	<u>\$ (242,042)</u>	<u>\$ 601,179</u>	<u>\$ 359,137</u>	<u>\$ 59,256</u>
Total additions	<u>\$ 693,562</u>	<u>\$ 1,939,111</u>	<u>\$ 2,632,673</u>	<u>\$ 2,235,592</u>
<u>Deductions</u>				
Benefits	\$ -	\$ 1,591,067	\$ 1,591,067	\$ 1,347,839
Refunds to terminated employees	208,856	384,745	593,601	637,372
Administrative expense	19,166	45,043	64,209	47,014
Total deductions	<u>\$ 228,022</u>	<u>\$ 2,020,855</u>	<u>\$ 2,248,877</u>	<u>\$ 2,032,225</u>
Net increase (decrease)	465,540	(81,744)	383,796	203,367
Net assets available for plan benefits, July 1	<u>5,188,759</u>	<u>42,526,721</u>	<u>47,715,480</u>	<u>47,512,113</u>
Net assets available for plan benefits, June 30	<u>\$5,654,299</u>	<u>\$42,444,977</u>	<u>\$48,099,276</u>	<u>\$47,715,480</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies

The City of Rockville, Maryland (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has a population of 47,388 and a land area of 13.03 square miles. According to the 2000 census, Rockville is the fourth largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members. Services provided include water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

A. Financial Reporting Entity

For financial reporting purposes, the general purpose financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments.

B. Fund Accounting

The accounts of the City are organized into funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types and account groups are used by the City:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by legal and regulatory provisions or budgeted contributions from outside sources to finance specific activities.

Debt Service Fund - The debt service fund, which includes special assessments, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The capital projects fund is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust Fund - The trust funds are used to account for assets held by the City in a trustee capacity.

The City's pension funds are included as a trust fund and accounts for the contributions made by the City and its employees to finance future pension payments. The funds are accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the enterprise funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City except that accounted for in the enterprise funds.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

C. Bases of Accounting

GOVERNMENTAL FUND TYPES

The modified accrual basis of accounting is followed by the governmental funds, as well as the "current resources measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, i.e., when measurable and available for the funding of current operations.

In applying the susceptible to accrual concept to real and personal property tax revenue recognition, "available" means property tax revenue is recognized currently if levied before fiscal year end and collected by intermediaries within 60 days after fiscal year-end. Such taxes levied but uncollected within 60 days after fiscal year-end are accounted for as deferred revenue as of June 30, 2001. The above treatment applies as well to assessments receivable. Assessments receivable result from special assessments levied against the property users who benefit from particular capital projects. Such revenues are accrued if they pertain to the current year and become available within 60 days after fiscal year-end. Assessments receivable (billed and unbilled) that are not available to fund current operations have been accounted for as deferred revenue.

Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are recorded as revenues when cash is received because they are generally not measurable until that point.

Revenue from other governments which represent reimbursements for specific projects or programs are recognized based upon the expenditures recorded. Revenues from other governments received but not earned and the note receivable in the General Fund are recorded as deferred revenue. Other revenue from other governments are accrued if they pertain to the current year and become available within 60 days after fiscal year end. The county tax duplication payment represents Montgomery County, Maryland's payment for City services for which the county collects taxes.

Investment earnings are recognized as revenue as earned in all fund types.

Expenditures are recorded when the related fund liability is incurred except for debt service, which is recognized when due.

PROPRIETARY AND FIDUCIARY FUND TYPES

All proprietary funds and the pension trust funds follow the accrual basis of accounting, as well as the "economic resources measurement focus." Under this method of accounting, revenues are recognized when earned, and expenses are recorded when incurred. The revenue of the utility operations, which is based on service rates authorized by the Mayor and Council, is determined by quarterly billings for residential and most commercial accounts and by monthly billings for approximately 100 of the larger commercial accounts. Earned but unbilled revenues are accrued and reported in the financial statements.

In proprietary funds, governments may choose not to implement pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The City has elected not to implement FASB pronouncements issued after that date for its proprietary fund type activities.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to June 1, the city manager submits to the Mayor and Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are then conducted to review the budget.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The budget ordinance becomes effective July 1 and provides spending authority for the operations of the city government. The legal control which the budget ordinance establishes over spending is at the fund level. Each of the general, special revenue, debt service and enterprise funds have legally adopted annual budgets appropriated at the fund level. The capital budget is adopted at the fund level but is not adopted as an annual budget.
- The city manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Mayor and Council.
- Subsequent to passage of the budget ordinance, the Mayor and Council may approve supplemental appropriations. During FY 2001, such supplemental appropriations for all funds amounted to \$5,973,277.

At the end of the fiscal year, unexpended operating budget appropriations of the governmental funds lapse. Budgets for the general, special revenue, debt service, and enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, all governmental fund budgets are presented on the modified accrual basis of accounting; the enterprise fund budgets are adopted on the full accrual basis. The combined statement of revenue, expenditures and changes in fund balances - revised budget and actual - general, special revenue, and debt service funds, presents actual expenditures on a basis consistent with the legally adopted budgets as amended.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is an extension of formal budgetary control in all governmental funds. The encumbrances outstanding at June 30, 2001, are reported as reservations of applicable fund balances and are subject to reappropriation by Council ordinance in the succeeding fiscal year.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

F. Cash and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. Pension trust fund assets are separately managed by the Principal Mutual Life Insurance Company. Pension trust fund investments are stated at fair value and short-term investments of one year or less included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short term investments include repurchase agreements and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro rata basis in accordance with average equity in pooled cash balances for the previous six months.

G. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$925,488 at June 30, 2001, and is composed of the following:

General fund property taxes receivable	\$903,621
Enterprise fund utility billings receivable	<u>21,867</u>
	<u>\$925,488</u>

H. Inventory

All City inventories (included in other assets in the combined balance sheet) are maintained on a consumption basis of accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale (Swim Center fund) or goods and materials used in providing services (general fund). Reservations of fund balances for the amounts of general fund inventories have been made to reflect the non-availability of those amounts for appropriation in the general fund.

I. General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at historical cost in the general fixed assets account group. Contributed fixed assets are recorded in the general fixed assets account group at fair market value at the time received. The City's public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks and lighting systems are not capitalized, as these assets are immovable and of value only to the City. No depreciation has been provided for general fixed assets.

J. Proprietary Fixed Assets

Fixed assets purchased by the proprietary fund type are stated at historical cost. Donated property is recorded at market value as of the date of donation. It is the City's policy to capitalize enterprise fund infrastructure consisting of water and sewer construction costs, in order to reflect the full asset base.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

J. Proprietary Fixed Assets (Continued)

Depreciation has been recorded over the following estimated useful lives, using the straight line method:

<u>Description</u>	<u>Lives (In Years)</u>
Buildings and structures	40-50
Machinery and equipment	5-10
Furniture and fixtures	7-10
Automobiles and trucks	5-7
Water and sewer infrastructure	20-50
Storm water management facilities	20-50

Depreciation applicable to assets purchased with externally funded contributed capital is charged to operations and then transferred to contributed capital.

K. Purchased Capacity

Purchased capacity, which consists of payments made under an intermunicipal agreement with the District of Columbia Blue Plains Wastewater Treatment Plant (Blue Plains) for improvements to treatment facilities owned and operated by Blue Plains, is stated at historical cost. Amortization, which commences upon substantial completion of each project, is recorded over 50 years, the estimated useful life of the improvements.

L. Compensated Absences

Liabilities for compensated absences (annual and sick leave benefits) are accrued when vested. The current portion of the governmental funds' compensated absences liabilities is recorded as accrued liabilities in the general and special revenue funds. The noncurrent portion of such liabilities is \$1,471,013 at June 30, 2001, and is recorded in the general long-term debt account group. The total accrued liability for compensated absences for the enterprise funds is recorded separately in the respective funds.

M. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(1) Summary of Significant Accounting Policies (Continued)

N. Total Columns on Combined Financial Statements

Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

O. Reclassifications

Certain reclassifications have been made to the June 30, 2000, comparative financial data to conform to the June 30, 2001, presentation.

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all of the City's funds, except the pension trust funds.

Deposits - At year-end, the carrying amount of the City's deposits was a deficit of \$618,280, and the bank balance was a deficit of \$209,710. The bank balance would normally be covered by federal depository insurance, but since there is a deficit balance, this does not apply.

Investments - The City is authorized to invest in any and all types of investments except where specifically prohibited by Maryland statutes. Maryland state law requires that all collateral be backed up by the full faith and credit of the federal government, including repurchase agreements which are supported by federal obligations. The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. Authority to invest City funds in compliance with the provisions of these State statutes is delegated to the Director of Finance.

The manager of the pension plan maintains the assets and invests them in pooled funds in accordance with contractual provisions. Accordingly, the investment amount of \$48,099,276 is not categorized below.

The City's remaining investments are summarized below by type and carrying amount at year-end. Such investments are insured or registered or the related securities are held by the City or its safekeeping agent in the City's name.

Repurchase agreements and U.S. Treasury securities	\$ 4,343,272
Federal National Mortgage Association debentures	13,837,201
Federal Home Loan Bank securities	6,001,427
Federal Farm Credit securities	3,996,061
	<u>\$28,177,961</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(3) Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County, Maryland, bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter sold at public auction.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real and personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2001. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

(4) Interfund Balances

The interfund receivables and payables as of June 30, 2001 consist of the following:

<u>Interfund Receivable-General Fund</u>	
<u>Interfund Payable</u>	<u>Total</u>
Special Revenue Fund:	
Swim Center Fund	\$334,711
Community Development Block Grant Fund	80,664
Capital Projects Fund	198,604
Enterprise Fund:	
RedGate Golf Course Fund	98,633
Total	<u>\$712,612</u>

(5) Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2001, include:

	<u>General Fund</u>
Maryland State Government	\$1,467,892
Montgomery County, Maryland	<u>1,004,253</u>
Total	<u>\$2,472,145</u>

At June 30, 2001, the General Fund receivables of \$2,472,145 due from other governments consisted primarily of personal, corporate, and real property taxes, gas and motor vehicle taxes, state income taxes, traders license fees, and admissions and amusement taxes and various grants.

(6) Purchased Capacity

Purchased capacity consists of payments made under an intermunicipal agreement with Blue Plains for improvements to treatment facilities owned and operated by the District of Columbia. This agreement consists of two contracts, one substantially complete as of June 30, 1992, and the other contract estimated for completion by the year 2010 (see Note 13a).

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(6) Purchased Capacity (Continued)

Changes in purchased capacity are as follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance June 30, 2001</u>
Blue Plains	<u>\$12,202,502</u>	<u>\$1,607,628</u>	<u>\$22,132</u>	<u>\$13,787,998</u>

(7) Fixed Assets

A summary of changes in the general fixed assets account group during 2001 follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Capitalization of Completed Projects/Transfers</u>	<u>Disposals</u>	<u>Balance June 30, 2001</u>
Land	\$ 7,898,098	\$ -	\$ (12,087)	\$ -	\$ 7,886,011
Buildings	9,533,630	-	2,244,478	-	11,778,108
Improvements other than buildings	4,909,943	-	-	-	4,909,943
Equipment	8,597,212	1,636,739	-	581,700	9,652,251
Construction in progress	<u>8,893,743</u>	<u>771,424</u>	<u>(2,244,478)</u>	<u>-</u>	<u>7,420,689</u>
Total	<u>\$39,832,626</u>	<u>\$2,408,163</u>	<u>\$ (12,087)</u>	<u>\$581,700</u>	<u>\$41,647,002</u>

A summary of proprietary fund type property, plant, and equipment at June 30, 2001 follows:

Land	\$ 2,067,186
Buildings	4,470,299
Improvements other than buildings	41,413,518
Equipment	4,319,476
Construction in progress	<u>8,934,853</u>
Total	<u>\$61,205,332</u>
Less - accumulated depreciation	<u>(25,682,635)</u>
Net	<u>\$35,522,697</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(8) Long-term Debt

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2001:

	Balance June 30, 2000	Additions	Change In Accrued Obligations for Compensated Absences	Principal Payments	Net Amortization of Bond Discount	Balance June 30, 2001	Remaining Unamortized Bond Discount June 30, 2001
<u>General Long-Term Debt</u>							
<u>Account Group</u>							
General obligation bonds	\$21,063,306	\$ -	\$ -	\$2,959,199	\$ -	\$18,104,107	\$ -
Accrued obligations for compensated absences	<u>1,451,048</u>	<u>-</u>	<u>19,965</u>	<u>-</u>	<u>-</u>	<u>1,471,013</u>	<u>-</u>
Total general long-term debt	<u>\$22,514,354</u>	<u>\$ -</u>	<u>\$ 19,965</u>	<u>\$2,959,199</u>	<u>\$ -</u>	<u>\$19,575,120</u>	<u>\$ -</u>
<u>Enterprise Funds</u>							
Water facility fund	\$ 5,460,523	\$898,119	\$ -	\$ 429,384	\$ 9,367	\$ 5,938,625	\$ 64,962
Sanitary sewer fund	<u>3,134,508</u>	<u>-</u>	<u>-</u>	<u>387,909</u>	<u>16,254</u>	<u>2,762,853</u>	<u>106,562</u>
Total enterprise funds	<u>\$ 8,595,031</u>	<u>\$898,119</u>	<u>\$ -</u>	<u>\$ 817,293</u>	<u>\$25,621</u>	<u>\$ 8,701,478</u>	<u>\$171,524</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(8) Long-term Debt (Continued)

The following is a list of the bonds and notes included in the City's long-term debt at June 30, 2001:

<u>Description</u>	<u>Year of Issuance</u>	<u>Series</u>	<u>Outstanding Principal</u>	<u>Interest Rate Range</u>	<u>Year of Final Maturity</u>
<u>General Long-Term Debt</u>					
General improvements	1991	-	\$ 440,850	5.5-7.0%	2002
General improvements	1993	-	10,710,651	4.5-5.25%	2012
General improvements	1993	-	1,800,000	4.5-5.25%	2013
Note payable	1995	-	1,500,000	-	2001
General improvements	1998	-	1,560,000	3.5-4.3%	2013
General improvements	1998	-	928,786	3.7-3.95%	2002
General improvements - Equipment	1999	-	389,739	4.17-4.53%	2006
General improvements - Equipment	2000	-	<u>774,081</u>	4.17-4.53%	2007
Total general long-term debt			<u>\$18,104,107</u>		
<u>Enterprise Funds</u>					
General improvements - Water	1991	-	\$ 59,151	5.5-7.0%	2002
General improvements - Water	1993	-	1,090,000	4.5-5.25%	2013
General improvements	1993	-	4,164,349	4.5-5.25%	2012
General improvements	1998	-	96,214	3.7-3.95%	2002
General improvements	1999	-	2,500,847	3.21%	2019
General improvements	2000	-	<u>962,441</u>	3.64%	2020
Total enterprise funds long-term debt			<u>\$ 8,873,002</u> ¹		

The City anticipates that all amounts required for payment of interest and principal on enterprise fund debt will be provided from the respective fund's revenues and that amounts required for payment of interest and principal on special assessment general improvement bonds will be provided from the collection of assessments levied against property owners; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

¹ Amount does not include unamortized bond discount of \$171,524

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(8) Long-Term Debt (Continued)

Debt service requirements on the foregoing debt are payable during future years as follows:

General Long-Term Debt Service Requirements

Fiscal Year Ending June 30	General Obligation Bonds		Total General Long-Term Debt Principal and Interest
	<u>Principal</u>	<u>Interest</u>	
2002	\$ 3,762,326	\$ 767,443	\$ 4,529,769
2003	1,910,375	668,987	2,579,362
2004	1,902,645	582,662	2,485,307
2005	1,934,565	494,918	2,429,483
2006	1,955,897	405,218	2,361,115
2007	1,908,452	312,952	2,221,404
2008	1,884,901	223,828	2,108,729
2009	744,403	132,633	877,036
2010	744,013	96,530	840,543
2011	520,565	61,083	581,648
2012	521,118	35,380	556,498
2013	314,847	14,970	329,817
Total	<u>\$18,104,107</u>	<u>\$3,796,604</u>	<u>\$21,900,711</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(8) Long-Term Debt (Continued)

Enterprise Funds Debt Service Requirements

Fiscal Year Ending June 30	Water Facility		Sanitary Sewer		Total Enterprise Funds Principal and Interest
	Principal	Interest	Principal	Interest	
2002	\$ 366,804	\$ 260,613	\$ 276,952	\$138,989	\$1,043,358
2003	426,732	243,795	364,010	127,733	1,162,270
2004	430,376	226,266	363,722	111,527	1,131,891
2005	442,397	208,136	368,436	94,673	1,113,642
2006	456,524	189,110	375,568	76,989	1,098,191
2007	469,101	169,071	381,000	58,555	1,077,727
2008	483,692	148,207	387,056	39,464	1,058,419
2009	308,820	126,305	178,257	19,432	632,814
2010	314,063	113,857	174,414	9,716	612,050
2011	313,164	101,305	-	-	414,469
2012	319,042	88,593	-	-	407,635
2013	296,928	76,661	-	-	373,589
2014	213,675	65,068	-	-	278,743
2015	220,772	57,971	-	-	278,743
2016	228,105	50,639	-	-	278,744
2017	235,682	43,061	-	-	278,743
2018	243,513	35,231	-	-	278,744
2019	165,647	27,137	-	-	192,784
2020	68,550	9,438	-	-	77,988
Total	<u>\$6,003,587</u>	<u>\$2,240,464</u>	<u>\$2,869,415</u>	<u>\$677,078</u>	<u>\$11,790,544</u>

Note: Principal amounts do not include unamortized bond discount of \$171,524.

(9) Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2001, \$15,403,700 of bonds outstanding are considered defeased, \$4,112,500 pertaining to bonds that were accounted for in an enterprise fund, and \$11,291,200 relating to general obligations that were accounted for within the general long-term debt account group. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(10) Contributed Capital

A summary of changes in the Enterprise Funds' Contributed Capital is as follows:

	Water Facility Fund	Sanitary Sewer Fund	Storm Water Management Fund	RedGate Golf Course Fund	Total
<u>Contributed Capital</u>					
Balance, July 1, 2000	\$8,152,413	\$7,032,026	\$7,655,878	\$1,047,561	\$23,887,878
Less depreciation charged directly against contributed capital	<u>187,972</u>	<u>158,176</u>	<u>56,081</u>	<u>-</u>	<u>402,229</u>
Balance, June 30, 2001	<u>\$7,964,441</u>	<u>\$6,873,850</u>	<u>\$7,599,797</u>	<u>\$1,047,561</u>	<u>\$23,485,649</u>

On July 1, 2000 the City was required to adopt Governmental Accounting Standards Board's (GASB) Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions." This Statement requires governments to recognize capital contributions to proprietary fund as revenue, not contributed capital. Previously, grants, entitlements and shared revenue and the fair value of donated received by the City and restricted to the acquisition or construction of capital assets were recorded as contributed capital. There was no such amounts received by the City for the year ended June 30, 2001. In accordance with Statement No. 33, contributed capital arising from periods prior to the implementation of Statement No. 33 has not been restated.

(11) Fund Balances

Fund balance reserved for encumbrances and inventory are described in note one. The reserve for pension plan benefits reflects the segregation of these amounts in separate trust funds. The reserve for advance represents contractual obligations.

An insurance deposit which enables the City to participate in the Montgomery County Self Insurance program is reserved in recognition of the fact that this amount is not currently available for appropriation. This amount is included in other assets on the combined balance sheet.

Debt Payment - These monies are reserved for 12 months of principal and interest payments of the Enterprise Funds.

Debt Service - These monies are reserved for future debt payments.

Future Expenditures - These monies are designated for expenditures and capital projects, which have been approved by the Mayor and Council for FY02 and beyond.

The Capital Projects Fund has an accumulated fund balance deficit at June 30, 2001 of \$1,267,015, which will be funded in FY 02 with the issuance of general obligation bonds. Also, the Swim Center Fund, a Special Revenue Fund, has an accumulated deficit at June 30, 2001 of \$591,987, which will be funded in future years through increased user charges at the swim center and through receipt of General Fund subsidies. In FY 02 the Swim Center Fund will merge with the General Fund.

On July 1, 2000, the General Fixed Assets Account Group transferred land in the amount of \$12,087 to the RedGate Golf Course Fund via a residual equity transfer.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(12) Segment Information for Enterprise Funds

The City maintains six enterprise funds. Four are utility funds, which provide water, sewer, refuse, and storm water management. The Parking fund accounts for present and future parking needs for the City's Town Center. The other fund is the Golf Course fund, which accounts for income from the City golf course and related expenses. Selected financial data, as of and for the year ended June 30, 2001, for these funds is shown below.

	<u>Enterprise Funds</u>						
	<u>Water Facility Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Refuse Fund</u>	<u>Storm Water Management Fund</u>	<u>Parking Fund</u>	<u>RedGate Golf Course Fund</u>	<u>Total</u>
Charges for services	\$ 2,742,320	\$ 4,558,615	\$ 3,026,600	\$ 1,534,767	\$ 352,012	\$ 1,003,023	\$ 13,217,337
Depreciation and amortization	903,630	511,815	253,902	98,527	-	159,919	1,927,793
Operating income (loss)	(159,441)	1,326,504	(834,743)	821,994	332,612	(214,550)	1,272,376
Total nonoperating income (expenses)	27,881	(65,615)	122,118	460,197	15,819	5,365	565,765
Operating transfers in	-	-	36,792	-	-	-	36,792
Net income (loss)	(131,560)	1,260,889	(675,833)	1,282,191	348,431	(209,185)	1,874,933
Fixed asset additions and deletions, net	917,404	848,350	147,810	4,641	45,924	105,256	2,069,385
Total assets	22,868,456	25,253,388	3,073,480	12,465,995	564,124	2,791,864	67,017,307
Net working capital	3,564,464	(773,175)	1,616,882	8,886,183	514,156	(247,529)	13,560,981
Bonds and other long-term liabilities payable from revenue	5,571,821	2,485,901	-	-	-	-	8,057,722
Total equity	16,409,675	20,741,018	2,799,477	12,409,682	560,080	2,532,571	55,452,503

(13) Commitments

(a) Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Waste Water Treatment Plant. Through June 30, 2001, the City had paid \$13,987,177 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$13,422,577 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(13) Commitments (Continued)

(b) Post-Employment Benefits

In addition to the pension benefits described in Note 15, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees. The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Currently, the City finances the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums are recorded in the General Fund. During fiscal year 2001, 34 retirees received post-employment health benefits. Expenditures of approximately \$31,000 were incurred by the City in furnishing these benefits.

(14) Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

(15) Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The Principal Mutual Life Insurance Company is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The plans do not issue separate financial statements

A. Plan Description

The PERS has a defined benefit option and a defined contribution option, which report as separate pension trust funds.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(15) Pension Plan (Continued)

A. Plan Description (Continued)

(1) Defined Benefit Option

This option is available to police employees, which participate 100 percent in the defined benefit option regardless of the date of employment and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service, and (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 01 for plan members were \$627,910 and the City contributed \$307,695.

Membership in the defined benefit plan consisted of the following at April 1, 2001, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving payments	113
Terminated plan members entitled to but not yet receiving payments	66
Active plan members	486
Total	<u>665</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(15) Pension Plan (Continued)

B. Funding Policy and Annual Pension Cost - Defined Benefit Option

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations.

Contribution rates	
City	5.28%-6.25%
Plan members	0.00%-8.50%
Annual pension cost	\$1,139,933
Contributions made	\$1,139,933
Actuarial valuation date	4/1/01
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	0 years
Asset valuation method	
Fixed income assets	Contract basis
United States Stock	Four years smoothed market
Actuarial assumptions	
Investment rate of return	7.75%
Projected salary increases	3.88%-8.10%
Includes inflation at	3.00%
Cost of living adjustments	0.00%

The PERS funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The actuarial assumptions used to compute the required contribution amount are the same as those used to compute the pension benefits earned. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service.

C. Historical Trend Information - Defined Benefit Option

Historical trend information about pension plans is presented herewith as required supplementary information. This information is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. The amount shown in the historical trend information as the "actuarial accrued liability" is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Annual pension costs equal the employer's annual required contributions for all disclosed fiscal years.

1) Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date <u>April 1</u>	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded AAL (FAAL)	(A/B) Funded Ratio	(C) Covered Payroll	((A-B)/C) FAAL as a percentage of Covered Payroll
1996	\$28,630,922	\$24,303,080	\$4,327,842	117.8%	\$14,136,861	30.6%
1997	31,166,006	25,764,412	5,401,594	121.0	14,087,288	38.3
1998	35,031,665	27,810,959	7,220,706	126.0	15,801,941	45.7
1999	39,139,715	29,550,412	9,589,303	132.5	17,111,645	56.0
2000	42,656,509	31,873,609	10,782,900	133.8	18,688,532	57.7
2001	41,714,743	33,981,593	7,733,150	122.8	19,394,622	39.9

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2001

(15) Pension Plan (Continued)

C. Historical Trend Information - Defined Benefit Option (Continued)

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and funded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the City's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the funded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the funded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the City's progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the PERS.

2) Schedule of Employer Contributions (1996-2001)

<u>Plan Year</u> <u>Ending April 1</u>	<u>Contribution</u>	<u>Contributed</u>
1996	\$ 573,504	100.0%
1997	728,264	100.0
1998	815,280	100.0
1999	930,662	100.0
2000	1,040,585	100.0
2001	1,139,933	100.0

Note: Contributions have been made in accordance with actuarially determined requirements which have been computed each year.

(16) New Governmental Accounting Standards Board (GASB) Standards

Statement No. 34, "Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments", issued June 1999, as amended by Statement No. 37, will be effective for the City of Rockville for the fiscal year ending June 30, 2003. Statement No. 38 "Certain Financial Statement Note Disclosures," is effective with the adoption of Statement No. 34. Statement No. 34 imposes new standards for financial reporting while Statement No. 38 modifies and imposes new disclosure requirements. Management has not yet completed their assessment of the statement, however, it will have a material effect on the overall financial statement preparation of the City of Rockville.

(17) Subsequent Events

On August 15, 2001, the City of Rockville issued \$6,100,000 in General Obligation Bonds. These bonds were rated "Aa1" by Moody's Investors Service and "AA+" by Standard and Poors. The proceeds of the bonds are to be utilized to fund the expansion and upgrade of a sewage treatment plant, the purchase and replacement of city owned vehicles and improvements to various parks and community centers.

General Fund

The General Fund is the principal fund of the City and is used to account for all activities of the City not included in other specified funds. The General Fund accounts for the normal recurring activities of the City (i.e., police, recreation, public works, general government, etc.). These activities are funded principally by property taxes on individuals and businesses and grants from other governmental units.

CITY OF ROCKVILLE, MARYLAND

Balance Sheet
General Fund
June 30, 2001
(With Comparative Totals for 2000)

<u>Assets</u>	<u>2001</u>	<u>2000</u>
Equity in pooled cash and cash equivalents	\$11,256,633	\$ 9,223,176
Property taxes receivable, net	251,795	356,798
Accounts receivable, net	641,753	154,582
Interfund receivable	712,612	532,662
Due from other governments	2,472,145	1,187,820
Other assets	1,184,729	935,299
Note receivable	-	660,000
Total assets	<u>\$16,519,667</u>	<u>\$13,050,337</u>
<u>Liabilities and Fund Balance</u>		
<u>Liabilities</u>		
Accounts payable	\$ 854,185	\$ 709,866
Accrued liabilities	795,799	738,820
Deferred revenue	1,444,576	1,472,327
Deposits	<u>424,036</u>	<u>384,723</u>
Total liabilities	\$ 3,518,596	\$ 3,305,736
<u>Fund Balance</u>		
Reserved for encumbrances	312,731	267,888
Reserved for self insurance deposit	261,393	261,393
Reserved for inventory	259,586	262,146
Reserved for advance	350,000	350,000
Unreserved:		
Designated for future expenditures	2,316,817	1,823,671
Undesignated	<u>9,500,544</u>	<u>6,779,503</u>
Total fund balance	<u>\$13,001,071</u>	<u>\$ 9,744,601</u>
Total liabilities and fund balance	<u>\$16,519,667</u>	<u>\$13,050,337</u>

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balance
 Revised Budget (GAAP Basis) and Actual - General Fund
 For the Year Ended June 30, 2001
 (With Comparative Totals for 2000)

	.....2001.....			
	Revised Budget	Actual	Variance Favorable (Unfavorable)	2000 Actual
<u>Revenue</u>				
<u>Property Taxes</u>				
Real Property	\$14,850,000	\$15,167,534	\$ 317,534	\$14,235,570
Business and other property	3,103,996	3,270,964	166,968	3,093,691
Total property taxes	\$17,953,996	\$18,438,498	\$ 484,502	\$17,329,261
<u>Revenue from Other Governments</u>				
Income taxes	5,780,000	6,957,578	1,177,578	4,867,201
Gas and motor vehicle taxes	2,285,938	2,339,566	53,628	2,263,596
County tax duplication payment	1,644,274	1,611,274	(33,000)	1,334,996
Admissions and amusement taxes	823,000	1,076,387	253,387	856,964
Public protection grant	701,633	775,733	74,100	851,758
Youth services grant	110,417	113,567	3,150	112,374
Cable television franchise fee	304,000	339,793	35,793	302,311
Other governmental revenue	70,565	101,278	30,713	49,745
Total governmental revenue	\$11,719,827	\$13,315,176	\$1,595,349	\$10,638,945
Licenses and permits	1,598,510	1,928,888	330,378	1,645,335
<u>Charges for Services</u>				
Recreation fees	2,049,566	2,017,090	(32,476)	1,894,500
Road permit fees	638,500	1,127,081	488,581	715,309
Other	494,400	605,592	111,192	381,768
Total charges for services	\$ 3,182,466	\$ 3,749,763	\$ 567,297	\$ 2,991,577
<u>Use of Money and Property</u>				
Interest income	630,000	813,382	183,382	711,246
Rental income	460,429	500,891	40,462	453,454
Total revenue from use of money and property	\$ 1,090,429	\$ 1,314,273	\$ 223,844	\$ 1,164,700
Fines and forfeitures	12,200	10,858	(1,342)	13,224
Other Revenue	2,316,362	2,321,500	5,138	1,379,432
Total revenue	\$37,873,790	\$41,078,956	\$3,205,166	\$35,162,474

(Continued)

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balance
 Revised Budget (GAAP Basis) and Actual - General Fund
 For the Year Ended June 30, 2001
 (With Comparative Totals for 2000)

	.....2001.....		Variance	2000
	Revised Budget	Actual	Favorable (Unfavorable)	Actual
<u>Expenditures</u>				
<u>General Government</u>				
Mayor and Council	\$ 447,883	\$ 439,498	\$ 8,385	\$ 434,440
City Manager	866,104	830,170	35,934	1,197,316
City Attorney	668,659	669,417	(758)	620,634
Finance and Information and Technology	4,526,196	3,748,491	777,705	3,210,550
Graphics and printing services	767,178	680,542	86,636	652,708
Other	943,675	880,308	63,367	1,126,160
Total general government	<u>\$ 8,219,695</u>	<u>\$ 7,248,426</u>	<u>\$ 971,269</u>	<u>\$ 7,241,808</u>
Community Development-Planning	1,007,241	1,082,130	(74,889)	867,840
Community Services	1,227,615	1,196,384	31,231	686,649
<u>Public Safety</u>				
Police	4,187,516	4,151,757	35,759	3,899,164
Licenses and inspections	1,439,103	1,436,036	3,067	1,537,037
Animal control	195,881	203,680	(7,799)	178,246
Total public safety	<u>\$ 5,822,500</u>	<u>\$ 5,791,473</u>	<u>\$ 31,027</u>	<u>\$ 5,614,447</u>
Public works	4,805,832	4,459,354	346,478	4,410,505
Recreation and parks	10,478,064	10,166,794	311,270	9,111,957
Nondepartmental	<u>3,115,134</u>	<u>1,518,305</u>	<u>1,596,829</u>	<u>1,815,626</u>
Total expenditures	<u>\$34,676,081</u>	<u>\$31,462,866</u>	<u>\$3,213,215</u>	<u>\$29,748,832</u>
Excess of revenue over expenditures	\$ 3,197,709	\$ 9,616,090	\$6,418,381	\$ 5,413,642

(Continued)

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balance
 Revised Budget (GAAP Basis) and Actual - General Fund
 For the Year Ended June 30, 2001
 (With Comparative Totals For 2000)

	.....2001.....			
	Revised		Variance	2000
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>	<u>Actual</u>
<u>Other Financing Sources (Uses)</u>				
Transfer out to capital projects fund	\$(2,457,024)	\$(2,457,024)	\$ -	\$(3,000,000)
Transfer out to debt service fund	(3,815,804)	(3,815,804)	-	(3,282,457)
Transfer out to redgate golf course fund	-	-	-	(70,407)
Transfer out to refuse fund	(36,792)	(36,792)	-	(36,792)
Transfer out to special activities fund	(50,000)	(50,000)	-	(38,131)
Total other financing uses	<u>\$(6,359,620)</u>	<u>\$(6,359,620)</u>	<u>\$ -</u>	<u>\$(6,427,787)</u>
Net decrease in fund balance	<u>\$(3,161,911)</u>	<u>\$ 3,256,470</u>	<u>\$ 6,418,381</u>	<u>\$(1,014,145)</u>

Special Revenue Funds

Special Revenue Funds accounts for the proceeds of specific revenue sources to be expended for specified purposes. The City maintains four funds: the Community Development Block Grant Fund, the Special Activities Fund, the Property Management Fund, and the Swim Center Fund. The Community Development Block Grant Fund accounts for federal grants for housing and community development programs. The Special Activities Fund accounts for funds raised for various community activities (i.e. Rockville Seniors Inc., mansion improvements, bike program, telecommunications improvements, etc). The Property Management Fund is a land use fund and accounts for the expenses incurred with the development and sale of land within the City's redevelopment areas and for the revenue from its sale. The Swim Center Fund accounts for the operating costs for the municipal swim center.

CITY OF ROCKVILLE, MARYLAND

Combining Balance Sheet
Special Revenue Funds
June 30, 2001

	Property Management Fund	Swim Center Fund	Special Activities Fund	Community Development Block Grant Fund	Total
<u>Assets</u>					
Equity in pooled cash and cash equivalents	\$115,487	\$ -	\$376,572	\$ -	\$ 492,059
Accounts receivable, net	80,315	-	-	96,499	176,814
Other assets	<u>9,388</u>	<u>2,882</u>	<u>6,039</u>	<u>-</u>	<u>18,309</u>
Total assets	<u>\$205,190</u>	<u>\$ 2,882</u>	<u>\$382,611</u>	<u>\$96,499</u>	<u>\$ 687,182</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ -	\$ 20,671	\$ 14,114	\$ 2,725	\$ 37,510
Interfund payable	-	334,711	-	80,664	415,375
Accrued liabilities	-	41,503	-	-	41,503
Deferred revenue	79,966	197,884	-	-	277,850
Other	<u>-</u>	<u>100</u>	<u>3,000</u>	<u>13,110</u>	<u>16,210</u>
Total liabilities	\$ 79,966	\$ 594,869	\$ 17,114	\$96,499	\$ 788,448
<u>Fund Balance</u>					
Unreserved:					
Undesignated	<u>125,224</u>	<u>(591,987)</u>	<u>365,497</u>	<u>-</u>	<u>(101,266)</u>
Total fund balance	<u>\$125,224</u>	<u>\$(591,987)</u>	<u>\$365,497</u>	<u>\$ -</u>	<u>\$(101,266)</u>
Total liabilities and fund balance	<u>\$205,190</u>	<u>\$ 2,882</u>	<u>\$382,611</u>	<u>\$96,499</u>	<u>\$ 687,182</u>

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Special Revenue Funds
For the Year Ended June 30, 2001

	Property Management <u>Fund</u>	Swim Center <u>Fund</u>	Special Activities <u>Fund</u>	Community Development Block Grant <u>Fund</u>	<u>Total</u>
<u>Revenue</u>					
Grant revenue	\$ -	\$ -	\$ -	\$435,289	\$ 435,289
Charges for services	440,000	958,956	-	-	1,398,956
Use of money and property	21,716	-	17,376	-	39,092
Other	<u>24,783</u>	<u>445</u>	<u>287,811</u>	<u>-</u>	<u>313,039</u>
Total revenue	\$ 486,499	\$ 959,401	\$305,187	\$435,289	\$2,186,376
<u>Expenditures</u>					
Community development block grant	-	-	-	435,289	435,289
Community services	-	-	200,181	-	200,181
Operating expenditures	-	973,042	-	-	973,042
Other	<u>468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>468</u>
Total expenditures	<u>\$ 468</u>	<u>\$ 973,042</u>	<u>\$200,181</u>	<u>\$435,289</u>	<u>\$1,608,980</u>
Excess (deficiency) of revenue over expenditures	\$ 486,031	\$ (13,641)	\$105,006	\$ -	\$ 577,396
<u>Other Financing Sources (Uses)</u>					
Transfer from general fund	-	-	50,000	-	50,000
Transfer to capital projects fund	<u>(571,682)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(571,682)</u>
Total other financing sources (uses)	<u>\$(571,682)</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (521,682)</u>
Excess (deficiency) of revenue and other financing sources (uses) over expenditures	\$ (85,651)	\$ (13,641)	\$155,006	\$ -	\$ 55,714
Fund balance at beginning of year	<u>210,875</u>	<u>(578,346)</u>	<u>210,491</u>	<u>-</u>	<u>(156,980)</u>
Fund balance at end of year	<u>\$ 125,224</u>	<u>\$(591,987)</u>	<u>\$365,497</u>	<u>\$ -</u>	<u>\$ (101,266)</u>

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Revised Budget (GAAP Basis) and Actual - Special Revenue Funds
For the Year Ended June 30, 2001

	Property Management Fund		Swim Center Fund		Special Activities Fund		Community Development Block Grant Fund		Total	Variance Favorable (Unfavorable)
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Actual	(Unfavorable)
Revenue										
Grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,107,242	\$435,289	\$ 435,289	\$(671,953)
Charges for services	440,000	440,000	-	1,009,500	958,956	(50,544)	-	-	1,398,956	(50,544)
Use of money and property	4,000	21,716	17,716	-	-	-	-	-	39,092	31,547
Other	24,682	24,783	101	-	445	445	-	-	313,039	(29,137)
Total revenue	\$ 468,682	\$ 486,499	\$ 17,817	\$ 1,009,500	\$ 959,401	\$ (50,099)	\$ 1,107,242	\$ 435,289	\$ 2,186,376	\$(720,087)
Expenditures										
Community development block grant	-	-	-	-	-	-	1,107,242	435,289	435,289	671,953
Community services	-	-	-	-	453,519	200,181	-	-	200,181	253,338
Operating expenditures	-	-	-	978,075	973,042	5,033	-	-	973,042	5,033
Other	30,000	468	29,532	-	-	-	-	-	468	29,532
Total expenditures	\$ 30,000	\$ 468	\$ 29,532	\$ 978,075	\$ 973,042	\$ 5,033	\$ 1,107,242	\$ 435,289	\$ 1,608,980	\$ 959,856
Excess (deficiency) of revenue over expenditures	\$ 438,682	\$ 486,031	\$ 47,349	\$ 31,425	\$ (13,641)	\$ (45,066)	\$ -	\$ -	\$ 577,396	\$ 239,769
Other Financing Sources										
(Uses)										
Transfer from general fund	-	-	-	-	50,000	-	-	-	50,000	-
Transfer out to capital projects fund	(571,682)	(571,682)	-	-	-	-	-	-	(571,682)	-
Total other financing sources	\$(571,682)	\$(571,682)	\$ -	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$(521,682)	\$ -
Excess of revenue and other financing sources over expenditures	\$(133,000)	\$ (85,651)	\$ 47,349	\$ 31,425	\$ (13,641)	\$ (45,066)	\$ -	\$ -	\$ 55,714	\$ 239,769
Fund balance at beginning of year	210,875	210,875	-	(578,346)	(578,346)	-	-	-	(156,980)	-
Fund balance at end of year	\$ 77,875	\$ 125,224	\$ 47,349	\$ (546,921)	\$(591,987)	\$ (45,066)	\$ -	\$ -	\$(101,266)	\$ 239,769

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Debt Service Fund

The Debt Service Fund accounts for the payment of principal and interest on general long-term debt of the City.

CITY OF ROCKVILLE, MARYLAND

Balance Sheet
Debt Service Fund
June 30, 2001
(With Comparative Totals for 2000)

<u>Assets</u>	<u>2001</u>	<u>2000</u>
Equity in pooled cash and cash equivalents	\$1,295,787	\$2,827,510
Assessments receivable	29,117	26,444
Other assets	76,135	87,067
Unbilled assessments receivable	<u>2,984,813</u>	<u>3,192,297</u>
Total assets	<u>\$4,385,852</u>	<u>\$6,133,318</u>
<u>Liabilities and Fund Balance</u>		
<u>Liabilities</u>		
Deferred revenue	\$3,013,930	\$3,218,741
Escrow	<u>384,300</u>	<u>384,300</u>
Total liabilities	\$3,398,230	\$3,603,041
<u>Fund Balance</u>		
Reserved for payment of:		
General obligation bonds and other debt	<u>987,622</u>	<u>2,530,277</u>
Total fund balance	<u>\$ 987,622</u>	<u>\$2,530,277</u>
Total liabilities and fund balance	<u>\$4,385,852</u>	<u>\$6,133,318</u>

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balance
 Revised Budget (GAAP Basis) and Actual-Debt Service Fund
 For the Year Ended June 30, 2001
 (With Comparative Totals for 2000)

	.....2001.....		Variance	
	Revised	Actual	Favorable	2000
	Budget		(Unfavorable)	
<u>Revenue</u>				
Assessments	\$ 437,065	\$ 436,751	\$ (314)	\$ 443,801
Use of money and property	<u>100,000</u>	<u>90,801</u>	<u>(9,199)</u>	<u>93,993</u>
Total revenue	\$ 537,065	\$ 527,552	\$ (9,513)	\$ 537,794
<u>Expenditures</u>				
Principal repayments:				
General obligation bonds	3,241,924	2,959,199	282,725	3,014,496
Interest payments:				
General obligation bonds	1,192,371	925,612	266,759	1,043,119
Other	<u>10,000</u>	<u>1,200</u>	<u>8,800</u>	<u>1,297</u>
Total expenditures	<u>\$ 4,444,295</u>	<u>\$ 3,886,011</u>	<u>\$ 558,284</u>	<u>\$4,058,912</u>
Excess of expenditures over revenues	\$(3,907,230)	\$(3,358,459)	\$ 548,771	\$(3,521,118)
<u>Other Financing Sources</u>				
Transfer in from general fund	\$ 3,815,804	\$ 3,815,804	\$ -	\$ 3,282,457
Transfer out to capital projects fund	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>
Total financing sources	<u>\$ 1,815,804</u>	<u>\$ 1,815,804</u>	<u>\$ -</u>	<u>\$ 3,282,457</u>
Net increase in fund balance	<u>\$(2,091,426)</u>	<u>\$(1,542,655)</u>	<u>\$ 548,771</u>	<u>\$ (238,661)</u>

Capital Projects Fund

The Capital Projects Fund accounts for the purchase, construction, or renovation of major general fixed assets.

CITY OF ROCKVILLE, MARYLAND

Balance Sheet
 Capital Projects Fund
 June 30, 2001
 (With Comparative Totals for 2000)

	<u>2001</u>	<u>2000</u>
<u>Assets</u>		
Other assets	\$ <u>41</u>	\$ <u>50,464</u>
Total assets	\$ <u><u>41</u></u>	\$ <u><u>50,464</u></u>
<u>Liabilities and Fund Balances</u>		
Accounts payable	\$ 852,490	\$ 381,344
Interfund Payable	198,604	170,548
Deferred revenues	7,500	7,500
Retainages payable	<u>208,462</u>	<u>278,823</u>
Total liabilities	\$ 1,267,056	\$ 838,215
Fund balances:		
Reserved for encumbrances	\$ 4,673,454	\$1,589,229
Unreserved:		
Undesignated	<u>(5,940,469)</u>	<u>(2,376,980)</u>
Total fund balances	<u><u>\$(1,267,015)</u></u>	<u><u>\$(787,751)</u></u>
Total liabilities and fund balances	\$ <u><u>41</u></u>	\$ <u><u>50,464</u></u>

CITY OF ROCKVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Capital Projects Fund
 For the Year Ended June 30, 2001
 (With Comparative Totals for 2000)

	<u>2001</u>	<u>2000</u>
<u>Revenue</u>		
Grants and contracts from other governments	\$ 617,699	\$ 772,611
Charges for services	417,466	56,160
Use of money and property	1,543	19,948
Total revenue	<u>\$ 1,036,708</u>	<u>\$ 848,719</u>
<u>Expenditures</u>		
Open projects	4,300,200	8,138,472
Closed projects	2,244,478	-
Total expenditures	<u>\$ 6,544,678</u>	<u>\$ 8,138,472</u>
Deficiency of revenue over expenditures	<u>\$(5,507,970)</u>	<u>\$(7,289,753)</u>
<u>Other Financing Sources</u>		
Transfer from general fund	2,457,024	3,000,000
Transfer from debt service fund	2,000,000	-
Transfer from property management fund	571,682	-
Proceeds from sale of general obligation bonds	-	1,023,639
Total other financing sources	<u>\$ 5,028,706</u>	<u>\$ 4,023,639</u>
Deficiency of revenue and other financing sources over expenditures	<u>\$ (479,264)</u>	<u>\$(3,266,114)</u>
Fund balances at beginning of year	<u>\$ (787,751)</u>	<u>\$ 2,478,363</u>
Fund balances at end of year	<u><u>\$(1,267,015)</u></u>	<u><u>\$ (787,751)</u></u>

Enterprise Funds

Enterprise Funds are designed to be self-supporting. The City operates three major types of enterprise funds: Utility Funds, the Parking Fund, and the RedGate Golf Course Fund. The Utility Funds (the Water Facility Fund, the Sanitary Sewer Fund, the Refuse Fund, the Storm Water Management Fund) account for the provision of water, sewer, and refuse services and storm water detention/retention facilities to residents within the City's service area. The Parking Fund accounts for the Middle Lane parking lot, the future parking meter program, and the planning, design, construction, and operation of a proposed parking garage in the City's Town Center. The RedGate Golf Course Fund accounts for the operating and capital costs for the City's golf course facility.

CITY OF ROCKVILLE, MARYLAND

Combining Balance Sheet
Enterprise Funds
June 30, 2001
(With Comparative totals for 2000)

	2001				
	Total Utility Funds	Parking Fund	RedGate Golf Course Fund	Total	2000
<u>Assets</u>					
<u>Current Assets</u>					
Equity in pooled cash and cash					
Equivalents	\$14,002,301	\$512,901	\$ -	\$14,515,202	\$14,773,400
Accounts receivable, net	2,238,225	-	-	2,238,225	2,050,000
Assessments receivable	19,371	-	-	19,371	18,363
Purchased capacity, current portion	22,131	-	-	22,131	22,131
Other receivables/assets	256,071	5,299	11,764	273,134	58,890
Total current assets	\$16,538,099	\$518,200	\$ 11,764	\$17,068,063	\$16,922,784
Unbilled assessments receivable	660,680	-	-	660,680	814,548
<u>Fixed Assets</u>					
Utility plant and equipment	57,529,746	45,924	3,629,662	61,205,332	59,135,947
Less - accumulated depreciation	(24,833,073)	-	(849,562)	(25,682,635)	(23,793,802)
Net fixed assets	\$32,696,673	\$ 45,924	\$2,780,100	\$35,522,697	\$35,342,145
Purchased capacity, long-term, net	13,765,867	-	-	13,765,867	12,180,371
Total assets	\$63,661,319	\$564,124	\$2,791,864	\$67,017,307	\$65,259,848
<u>Liabilities and Equity</u>					
<u>Current Liabilities</u>					
Bonds payable within one year	\$ 643,756	\$ -	\$ -	\$ 643,756	\$ 817,318
Accounts payable	1,944,690	4,044	26,303	1,975,037	2,094,189
Interfund payable	-	-	98,633	98,633	-
Accrued liabilities	621,799	-	55,922	677,721	668,882
Deferred revenue	-	-	78,435	78,435	73,330
Retainages payable	21,273	-	-	21,273	250,706
Deposits and other liabilities	12,227	-	-	12,227	12,227
Total current liabilities	\$ 3,243,745	\$ 4,044	\$ 259,293	\$ 3,507,082	\$ 3,916,652
<u>Long-Term Liabilities</u>					
Bonds payable	8,057,722	-	-	8,057,722	7,777,713
Total long-term liabilities	\$ 8,057,722	\$ -	\$ -	\$ 8,057,722	\$ 7,777,713
Total liabilities	\$11,301,467	\$ 4,044	\$ 259,293	\$11,564,804	\$11,694,365
<u>Equity</u>					
Contributed capital	22,438,088	-	1,047,561	23,485,649	23,887,878
Retained earnings:					
Reserved for debt repayment	378,517	-	-	378,517	378,517
Unreserved	29,543,247	560,080	1,485,010	31,588,337	29,299,088
Total equity	\$52,359,852	\$560,080	\$2,532,571	\$55,452,503	\$53,565,483
Total liabilities and equity	\$63,661,319	\$564,124	\$2,791,864	\$67,017,307	\$65,259,848

CITY OF ROCKVILLE

Combining Statement of Revenue, Expenses, and Changes in Retained Earnings
Enterprise Funds
For the Year Ended June 30, 2001

	Total Utility <u>Funds</u>	Parking <u>Fund</u>	RedGate Golf Course <u>Fund</u>	<u>Total</u>
<u>Operating Revenue</u>				
Charges for services	\$11,862,302	\$352,012	\$1,003,023	\$13,217,337
Other revenue	<u>974,010</u>	<u>-</u>	<u>-</u>	<u>974,010</u>
Total operating revenue	\$12,836,312	\$352,012	\$1,003,023	\$14,191,347
<u>Operating Expenses</u>				
Treatment and purification	\$ 997,485	\$ -	\$ -	\$ 997,485
Distribution	639,714	-	-	639,714
Collection and disposal	4,522,883	-	-	4,522,883
Customer billing, collection, and operating expenses	3,298,457	19,400	1,057,654	4,375,511
Repairs and maintenance	<u>455,585</u>	<u>-</u>	<u>-</u>	<u>455,585</u>
Total operating expenses	<u>\$ 9,914,124</u>	<u>\$ 19,400</u>	<u>\$1,057,654</u>	<u>\$10,991,178</u>
Net operating income (loss) before depreciation and amortization	\$ 2,922,188	\$332,612	\$ (54,631)	\$ 3,200,169
Less - depreciation and amortization	<u>(1,767,874)</u>	<u>-</u>	<u>(159,919)</u>	<u>(1,927,793)</u>
Operating income (loss)	\$ 1,154,314	\$332,612	\$ (214,550)	\$ 1,272,376
<u>Nonoperating Income (Expenses)</u>				
Interest income	954,934	15,819	5,365	976,118
Interest expense	<u>(410,353)</u>	<u>-</u>	<u>-</u>	<u>(410,353)</u>
Total nonoperating income	<u>\$ 544,581</u>	<u>\$ 15,819</u>	<u>\$ 5,365</u>	<u>\$ 565,765</u>
Income (loss) before operating transfers	\$ 1,698,895	\$348,431	\$ (209,185)	\$ 1,838,141
<u>Operating Transfers In</u>				
Transfer in from general fund	<u>36,792</u>	<u>-</u>	<u>-</u>	<u>36,792</u>
Total operating transfer in	\$ 36,792	\$ -	\$ -	\$ 36,792
Net income (loss)	\$ 1,735,687	\$348,431	\$ (209,185)	\$ 1,874,933
Depreciation charged directly against contributed capital	<u>402,229</u>	<u>-</u>	<u>-</u>	<u>402,229</u>
Increase (decrease) in retained earnings	\$ 2,137,916	\$348,431	\$ (209,185)	\$ 2,277,162
Retained earnings at beginning of year	27,783,848	211,649	1,682,108	29,677,605
Residual equity transfer	<u>-</u>	<u>-</u>	<u>12,087</u>	<u>12,087</u>
Retained earnings at end of year	<u>\$29,921,764</u>	<u>\$560,080</u>	<u>\$1,485,010</u>	<u>\$31,966,854</u>

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenses, and Changes in Retained Earnings
Revised Budget (GAAP Basis) and Actual - Enterprise Funds
For the Year Ended June 30, 2001

	Total Utility Funds			Parking Fund			RedGate Golf Course Fund			Total		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Total revenue	\$12,140,253	\$12,836,312	\$ 696,059	\$289,000	\$352,012	\$ 63,012	\$1,066,950	\$1,003,023	\$(63,927)	\$13,496,203	\$14,191,347	\$ 695,144
Total operating expenses	11,236,383	9,914,124	1,322,259	143,159	19,400	123,759	1,169,205	1,057,654	111,551	12,548,747	10,991,178	1,557,569
Net Operating income (loss) before depreciation and amortization	\$ 903,870	\$ 2,922,188	\$2,018,318	\$145,841	\$332,612	\$186,771	\$ (102,255)	\$ (54,631)	\$ 47,624	\$ 947,456	\$ 3,200,169	\$2,252,713
Depreciation and amortization	(1,767,874)	(1,767,874)	-	-	-	-	(159,919)	(159,919)	-	(1,927,793)	(1,927,793)	-
Operating income (loss)	\$ (864,004)	\$ 1,154,314	\$2,018,318	\$145,841	\$332,612	\$186,771	\$ (262,174)	\$ (214,550)	\$ 47,624	\$ (980,337)	\$ 1,272,376	\$2,252,713
Nonoperating Income (Expenses)												
Interest income	535,468	954,934	419,466	1,000	15,819	14,819	-	5,365	5,365	536,468	976,118	439,650
Interest expense	(410,353)	(410,353)	-	-	-	-	-	-	-	(410,353)	(410,353)	-
Total nonoperating income	\$ 125,115	\$ 544,581	\$ 419,466	\$ 1,000	\$ 15,819	\$ 14,819	\$ -	\$ 5,365	\$ 5,365	\$ 126,115	\$ 565,765	\$ 439,650
Income (loss) before operating transfers	\$ (738,889)	\$ 1,698,895	\$2,437,784	\$146,841	\$348,431	\$201,590	\$ (262,174)	\$ (209,185)	\$ 52,989	\$ (854,222)	\$ 1,838,141	\$2,692,363
Operating Transfers In												
Transfer in from general fund	36,792	36,792	-	-	-	-	-	-	-	36,792	36,792	-
Total operating transfer in	\$ 36,792	\$ 36,792	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,792	\$ 36,792	\$ -
Net income (loss)	\$ (702,097)	\$ 1,735,687	\$2,437,784	\$146,841	\$348,431	\$201,590	\$ (262,174)	\$ (209,185)	\$ 52,989	\$ (817,430)	\$1,874,933	2,692,363
Depreciation charged directly against contributed capital	-	402,229	402,229	-	-	-	-	-	-	-	402,229	402,229
Net increase (decrease) in retained earnings	\$ (702,097)	\$ 2,137,916	\$2,840,013	\$146,841	\$348,431	\$201,590	\$ (262,174)	\$ (209,185)	\$ 52,989	\$ (817,430)	\$ 2,277,162	\$3,094,592

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2001

	<u>Total Utility Funds</u>	<u>Parking Fund</u>	<u>RedGate Golf Course Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$12,744,254	\$352,015	\$1,008,127	\$14,104,396
Cash payments to suppliers for goods and services	(5,762,501)	(7,802)	(517,494)	(6,287,797)
Cash payments to employees for services	<u>(4,590,541)</u>	<u>(7,847)</u>	<u>(545,547)</u>	<u>(5,143,935)</u>
Net cash provided (used) by operating activities	\$ 2,391,212	\$336,366	\$ (54,914)	\$ 2,672,664
Cash flows from noncapital financing activities:				
Cash received from general fund	<u>36,792</u>	<u>-</u>	<u>98,633</u>	<u>135,425</u>
Net cash provided by noncapital financing activities	\$ 36,792	\$ -	\$ 98,633	\$ 135,425
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,918,204)	(45,924)	(109,999)	(2,074,127)
Purchased capacity cost	(1,607,628)	-	-	(1,607,628)
Principal paid on general obligation bond maturities and equipment contracts	(817,293)	-	-	(817,293)
Interest paid on general obligation bonds and equipment contracts	(391,058)	-	-	(391,058)
Proceeds (including interest) from special assessments	240,619	-	-	240,619
Proceeds from the sale of bonds	<u>898,119</u>	<u>-</u>	<u>-</u>	<u>898,119</u>
Net cash (used) by capital and related financing activities	\$(3,595,445)	\$(45,924)	\$ (109,999)	\$(3,751,368)
Cash flows from investing activities - interest on investments	<u>668,730</u>	<u>11,059</u>	<u>5,292</u>	<u>685,081</u>
Net increase (decrease) in cash and cash equivalents	\$ (498,711)	\$301,501	\$ (60,988)	\$ (258,198)
Cash and cash equivalents at beginning of year	<u>14,501,012</u>	<u>211,400</u>	<u>60,988</u>	<u>14,773,400</u>
Cash and cash equivalents at end of year	<u>\$14,002,301</u>	<u>\$512,901</u>	<u>\$ -</u>	<u>\$14,515,202</u>

(Continued)

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Cash Flows (Continued) Enterprise Funds For the Year Ended June 30, 2001

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	<u>Total Utility Funds</u>	<u>Parking Fund</u>	<u>RedGate Golf Course Fund</u>	<u>Total</u>
Operating income (loss)	\$1,154,314	\$332,612	\$(214,550)	\$1,272,376
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	\$1,767,874	\$ -	\$ 159,919	\$1,927,793
Changes in assets and liabilities:				
(Increase) in accounts receivable	(188,225)	-	(10,966)	(199,191)
Increase (decrease) in accounts payable	(127,656)	4,028	4,476	(119,152)
Increase (decrease) in accrued liabilities	3,838	(274)	11,602	15,166
Increase in deferred revenue	-	-	5,105	5,105
(Decrease) in retainages payable	(218,933)	-	(10,500)	(229,433)
Total adjustments	<u>\$1,236,898</u>	<u>\$ 3,754</u>	<u>\$ 159,636</u>	<u>\$1,400,288</u>
Net cash provided (used) by operating activities	<u><u>\$2,391,212</u></u>	<u><u>\$336,366</u></u>	<u><u>\$ (54,914)</u></u>	<u><u>\$2,672,664</u></u>

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CITY OF ROCKVILLE, MARYLAND

Combining Balance Sheet
Enterprise Funds - Utility Funds
June 30, 2001

Assets	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Storm Water Management Fund	Total
<u>Current Assets</u>					
Equity in pooled cash and cash equivalents	\$ 3,796,526	\$ 267,726	\$1,135,921	\$ 8,802,128	\$14,002,301
Accounts receivable, net	579,173	937,522	721,530	-	2,238,225
Assessments receivable	9,420	9,951	-	-	19,371
Purchased capacity, current portion	-	22,131	-	-	22,131
Other receivables	66,305	15,964	33,434	140,368	256,071
Total current assets	\$ 4,451,424	\$ 1,253,294	\$1,890,885	\$ 8,942,496	\$16,538,099
Unbilled assessments receivable	324,455	336,225	-	-	660,680
<u>Fixed Assets</u>					
Utility plant and equipment	30,675,886	19,828,512	2,475,803	4,549,545	57,529,746
Less - accumulated depreciation	(12,583,309)	(9,930,510)	(1,293,208)	(1,026,046)	(24,833,073)
Net fixed assets	\$18,092,577	\$ 9,898,002	\$1,182,595	\$ 3,523,499	\$32,696,673
Purchased capacity, long-term, net	-	13,765,867	-	-	13,765,867
Total assets	<u>\$22,868,456</u>	<u>\$25,253,388</u>	<u>\$3,073,480</u>	<u>\$12,465,995</u>	<u>\$63,661,319</u>
<u>Liabilities and Equity</u>					
<u>Current Liabilities</u>					
Bonds payable within one year	\$ 366,804	\$ 276,952	\$ -	\$ -	\$ 643,756
Accounts payable	166,265	1,674,649	67,981	35,795	1,944,690
Accrued liabilities	320,391	74,868	206,022	20,518	621,799
Retainages payable	21,273	-	-	-	21,273
Deposits and other liabilities	12,227	-	-	-	12,227
Total current liabilities	\$ 886,960	\$ 2,026,469	\$ 274,003	\$ 56,313	\$ 3,243,745
<u>Long-Term Liabilities</u>					
Bonds payable	5,571,821	2,485,901	-	-	8,057,722
Total long-term liabilities	<u>\$ 5,571,821</u>	<u>\$ 2,485,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,057,722</u>
Total liabilities	\$ 6,458,781	\$ 4,512,370	\$ 274,003	\$ 56,313	\$11,301,467
<u>Equity</u>					
Contributed capital	\$ 7,964,441	\$ 6,873,850	\$ -	\$ 7,599,797	\$22,438,088
Retained earnings:					
Reserved for debt repayment	169,400	209,117	-	-	378,517
Unreserved	8,275,834	13,658,051	2,799,477	4,809,885	29,543,247
Total Equity	<u>\$16,409,675</u>	<u>\$20,741,018</u>	<u>\$2,799,477</u>	<u>\$12,409,682</u>	<u>\$52,359,852</u>
Total liabilities and equity	<u>\$22,868,456</u>	<u>\$25,253,388</u>	<u>\$3,073,480</u>	<u>\$12,465,995</u>	<u>\$63,661,319</u>

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenses, and Changes in Retained Earnings
Enterprise Funds - Utility Funds
For the Year Ended June 30, 2001

	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Storm Water Management Fund	Total
<u>Operating Revenue</u>					
Charges for services	\$2,742,320	\$ 4,558,615	\$3,026,600	\$1,534,767	\$11,862,302
Other revenue	<u>659,882</u>	<u>309,206</u>	<u>-</u>	<u>4,922</u>	<u>974,010</u>
Total operating revenue	\$3,402,202	\$ 4,867,821	\$3,026,600	\$1,539,689	\$12,836,312
<u>Operating Expenses</u>					
Treatment and purification	997,485	-	-	-	997,485
Distribution	639,714	-	-	-	639,714
Collection and disposal	-	1,712,117	2,810,766	-	4,522,883
Customer billing, collection and operating expenses	924,672	1,246,755	507,862	619,168	3,298,457
Repairs and maintenance	<u>96,142</u>	<u>70,630</u>	<u>288,813</u>	<u>-</u>	<u>455,585</u>
Total operating expenses	<u>\$2,658,013</u>	<u>\$ 3,029,502</u>	<u>\$3,607,441</u>	<u>\$ 619,168</u>	<u>\$ 9,914,124</u>
Operating income (loss) before depreciation and amortization	\$ 744,189	\$ 1,838,319	\$ (580,841)	\$ 920,521	\$ 2,922,188
Less - depreciation and amortization	<u>(903,630)</u>	<u>(511,815)</u>	<u>(253,902)</u>	<u>(98,527)</u>	<u>(1,767,874)</u>
Operating income (loss)	\$ (159,441)	\$ 1,326,504	\$ (834,743)	\$ 821,994	\$ 1,154,314
<u>Nonoperating Income (Expenses)</u>					
Interest income	269,707	102,912	122,118	460,197	954,934
Interest expense	<u>(241,826)</u>	<u>(168,527)</u>	<u>-</u>	<u>-</u>	<u>(410,353)</u>
Total nonoperating income (expenses)	<u>\$ 27,881</u>	<u>\$ (65,615)</u>	<u>\$ 122,118</u>	<u>\$ 460,197</u>	<u>\$ 544,581</u>
Income (loss) before operating transfers	\$ (131,560)	\$ 1,260,889	\$ (712,625)	\$1,282,191	\$ 1,698,895
<u>Operating Transfers In</u>					
Transfer in from general fund	<u>-</u>	<u>-</u>	<u>36,792</u>	<u>-</u>	<u>36,792</u>
Net income (loss)	\$ (131,560)	\$ 1,260,889	\$ (675,833)	\$1,282,191	\$ 1,735,687
Depreciation charged directly against contributed capital	<u>187,972</u>	<u>158,176</u>	<u>-</u>	<u>56,081</u>	<u>402,229</u>
Increase (decrease) in retained earnings	\$ 56,412	\$ 1,419,065	\$ (675,833)	\$1,338,272	\$ 2,137,916
Retained earnings at beginning of year	<u>8,388,822</u>	<u>12,448,103</u>	<u>3,475,310</u>	<u>3,471,613</u>	<u>27,783,848</u>
Retained earnings at end of year	<u>\$8,445,234</u>	<u>\$13,867,168</u>	<u>\$2,799,477</u>	<u>\$4,809,885</u>	<u>\$29,921,764</u>

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Revenue, Expenses, and Changes in Retained Earnings
Revised Budget (GAAP Basis) and Actual - Enterprise Funds - Utility Funds
For the Year Ended June 30, 2001

	Water Facility Fund			Sanitary Sewer Fund			Refuse Fund			Storm Water Management Fund			Total	
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Actual	Variance Favorable (Unfavorable)
Total revenue	\$3,360,726	\$3,402,202	\$ 41,476	\$5,089,171	\$4,867,821	\$(221,350)	\$3,057,356	\$3,026,600	\$(30,756)	\$633,000	\$1,539,689	\$ 906,689	\$12,836,312	\$ 696,059
Total operating Expenses	2,881,521	2,658,013	223,508	3,686,557	3,029,502	657,055	3,988,361	3,607,441	380,920	679,944	619,168	60,776	9,914,124	1,322,259
Operating income (loss) before depreciation and amortization	\$ 479,205	\$ 744,189	\$ 264,984	\$1,402,614	\$1,838,319	\$ 435,705	\$ (931,005)	\$(580,841)	\$350,164	\$(46,944)	\$ 920,521	\$ 967,465	\$ 2,922,188	\$2,018,318
Depreciation and amortization	(903,630)	(903,630)	-	(511,815)	(511,815)	-	(253,902)	(253,902)	-	(98,527)	(98,527)	-	(1,767,874)	-
Operating income (loss)	\$ (424,425)	\$ (159,441)	\$ 264,984	\$ 890,799	\$1,326,504	\$ 435,705	\$(1,184,907)	\$(834,743)	\$350,164	\$(145,471)	\$ 821,994	\$ 967,465	\$ 1,154,314	\$2,018,318
Nonoperating Income (Expenses)	108,890	269,707	160,817	30,129	102,912	72,783	56,449	122,118	65,669	340,000	460,197	120,197	954,934	419,466
Interest expense	(241,826)	(241,826)	-	(168,527)	(168,527)	-	-	-	-	-	-	-	(410,353)	-
Total nonoperating income (expenses)	\$(132,936)	\$ 27,881	\$ 160,817	\$(138,398)	\$(65,615)	\$ 72,783	\$ 56,449	\$ 122,118	\$ 65,669	\$ 340,000	\$ 460,197	\$ 120,197	\$ 544,581	\$ 419,466
Income (loss) before operating transfers	\$(557,361)	\$(131,560)	\$ 425,801	\$ 752,401	\$1,260,889	\$ 508,488	\$(1,128,458)	\$(712,625)	\$415,833	\$ 194,529	\$1,282,191	\$1,087,662	\$ 1,698,895	\$2,437,784
Operating Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In Transfer in from general fund	-	-	-	-	-	-	36,792	36,792	-	-	-	-	36,792	-
Net income (loss)	\$(557,361)	\$(131,560)	\$ 425,801	\$ 752,401	\$1,260,889	\$ 508,488	\$(1,091,666)	\$(675,833)	\$415,833	\$ 194,529	\$1,282,191	\$1,087,662	\$ 1,735,687	\$2,437,784
Depreciation charged directly against contributed capital	-	187,972	187,972	-	158,176	158,176	-	-	-	-	-	56,081	402,229	402,229
Net increase (decrease) in retained earnings	\$(557,361)	\$ 56,412	\$ 613,773	\$ 752,401	\$1,419,065	\$ 666,664	\$(1,091,666)	\$(675,833)	\$415,833	\$ 194,529	\$1,338,272	\$1,143,743	\$ 2,137,916	\$2,840,013

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Cash Flows
Enterprise Funds-Utility Funds
For the Year Ended June 30, 2001

	Water Facility Fund	Sanitary Sewer Fund	Refuse Fund	Storm Water Management Fund	Total Utility Funds
Cash flows from operating activities:					
Cash received from customers	\$ 3,387,752	\$ 4,821,389	\$ 2,994,825	\$ 1,540,288	\$12,744,254
Cash payments to suppliers for goods and services	(1,520,800)	(2,436,959)	(1,486,178)	(318,564)	(5,762,501)
Cash payments to employees for services	<u>(1,443,321)</u>	<u>(692,475)</u>	<u>(2,162,630)</u>	<u>(292,115)</u>	<u>(4,590,541)</u>
Net cash provided (used) by operating activities	\$ 423,631	\$ 1,691,955	\$ (653,983)	\$ 929,609	\$ 2,391,212
Cash flows from noncapital financing activities:					
Cash received from general fund	<u>-</u>	<u>-</u>	<u>36,792</u>	<u>-</u>	<u>36,792</u>
Net cash provided by noncapital financing activities	\$ -	\$ -	\$ 36,792	\$ -	\$ 36,792
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(917,403)	(848,350)	(147,810)	(4,641)	(1,918,204)
Purchased capacity cost	-	(1,607,628)	-	-	(1,607,628)
Principal paid on general obligation bond maturities and equipment contracts	(429,384)	(387,909)	-	-	(817,293)
Interest paid on general obligation bonds and equipment contracts	(238,023)	(153,035)	-	-	(391,058)
Proceeds (including interest) from special assessments	113,854	126,765	-	-	240,619
Proceeds from the sale of bonds	<u>898,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>898,119</u>
Net cash provided (used) by capital and related financing activities	\$ (572,837)	\$ (2,870,157)	\$ (147,810)	\$ (4,641)	\$ (3,595,445)
Cash flows from investing activities - interest on investments	<u>177,478</u>	<u>50,524</u>	<u>97,526</u>	<u>343,202</u>	<u>668,730</u>
Net increase (decrease) in cash and cash equivalents	\$ 28,272	\$ (1,127,678)	\$ (667,475)	\$1,268,170	\$ (498,711)
Cash and cash equivalents at beginning of year	<u>3,768,254</u>	<u>1,395,404</u>	<u>1,803,396</u>	<u>7,533,958</u>	<u>14,501,012</u>
Cash and cash equivalents at end of year	<u>\$ 3,796,526</u>	<u>\$ 267,726</u>	<u>\$ 1,135,921</u>	<u>\$8,802,128</u>	<u>\$14,002,301</u>

(Continued)

CITY OF ROCKVILLE, MARYLAND

Combining Statement of Cash Flows (Continued) Enterprise Funds-Utility Funds For the Year Ended June 30, 2001

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	<u>Water Facility Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Refuse Fund</u>	<u>Storm Water Management Fund</u>	<u>Total Utility Funds</u>
Operating income (loss)	\$(159,441)	\$1,326,504	\$(834,743)	\$821,994	\$1,154,314
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	903,630	511,815	253,902	98,527	1,767,874
Changes in assets and liabilities:					
(Increase) in accounts receivable	(71,580)	(55,068)	(61,577)	-	(188,225)
Increase (decrease) in accounts payable	(26,723)	(91,933)	(14,516)	5,516	(127,656)
Increase (decrease) in accrued liabilities	(10,259)	637	6,393	7,067	3,838
(Decrease) in retainages payable	(211,996)	-	(3,442)	(3,495)	(218,933)
Total adjustments	<u>\$ 583,072</u>	<u>\$ 365,451</u>	<u>\$ 180,760</u>	<u>\$107,615</u>	<u>\$1,236,898</u>
Net cash provided (used) by operating activities	<u>\$ 423,631</u>	<u>\$1,691,955</u>	<u>\$(653,983)</u>	<u>\$929,609</u>	<u>\$2,391,212</u>

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General Fixed Assets Account Group

The General Fixed Assets Account Group represents a summary of the fixed assets of the City other than assets of the Enterprise Funds. Capital outlays in funds other than Enterprise Funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded, at cost, for control purposes in the General Fixed Assets Account Group. In accordance with generally accepted accounting principles for municipalities, depreciation is not recorded on general fixed assets.

CITY OF ROCKVILLE, MARYLAND

Schedule of Changes in General Fixed Assets
By Source
As of June 30, 2001

	<u>2001 Additions Funded From</u>					
	Balance at June 30, 2000	Capital Projects Funds	Transfer	Current Revenue	Disposals	Balance at June 30, 2001
<u>General Fixed Assets, at Cost</u>						
Land	\$ 7,898,098	\$ -	\$ (12,087)	\$ -	\$ -	\$ 7,886,011
Buildings	9,533,630	-	2,244,478	-	-	11,778,108
Improvements other than buildings	4,909,943	-	-	-	-	4,909,943
Machinery and equipment	8,597,212	-	-	1,636,739	(581,700)	9,652,251
Construction in progress	<u>8,893,743</u>	<u>771,424</u>	<u>(2,244,478)</u>	<u>-</u>	<u>-</u>	<u>7,420,689</u>
Total general fixed assets	<u>\$39,832,626</u>	<u>\$771,424</u>	<u>\$ (12,087)</u>	<u>\$1,636,739</u>	<u>\$(581,700)</u>	<u>\$41,647,002</u>
<u>Investment in General Fixed Assets</u>						
Investment in general Property acquired prior to July 1, 1959	\$ 3,899,631	\$ -	\$ -	\$ -	\$ -	\$ 3,899,631
Investment in property acquired after June 30, 1959, from:						
General bonds	17,479,849	771,424	(12,087)	-	-	18,239,186
Current revenue	10,078,017	-	-	1,636,739	(581,700)	11,133,056
Special assessments against property owners	5,409,590	-	-	-	-	5,409,590
Community development block grant	1,707,855	-	-	-	-	1,707,855
Federal revenue sharing	138,945	-	-	-	-	138,945
RedGate construction and acquisition fund	<u>1,118,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,118,739</u>
Total investment in General fixed assets	<u>\$39,832,626</u>	<u>\$771,424</u>	<u>\$ (12,087)</u>	<u>\$1,636,739</u>	<u>\$(581,700)</u>	<u>\$41,647,002</u>

CITY OF ROCKVILLE, MARYLAND

Schedule of Changes in General Fixed Assets
By Function and Activity
For the Year Ended June 30, 2001

	General Fixed Assets June 30, 2000	Additions/ Transfers	Disposals	General Fixed Assets June 30, 2001
<u>General Government</u>				
Mayor, Council, and Executive	\$ 156,827	\$ 1,895	\$ -	\$ 158,722
Staff agencies:				
Legal	19,840	-	-	19,840
Planning	111,730	11,454	(899)	122,285
Finance	1,387,012	361,619	-	1,748,631
Engineering	202,909	6,040	(1,537)	207,412
Administrative services	18,496	-	-	18,496
Community relations and office services	539,759	65,120	(700)	604,179
Public building	9,759,846	2,244,478	-	12,004,324
Total staff agencies	<u>\$12,039,592</u>	<u>\$2,688,711</u>	<u>\$ (3,136)</u>	<u>\$14,725,167</u>
Total general government	\$12,196,419	\$2,690,606	\$ (3,136)	\$14,883,889
<u>Public Safety</u>				
Police protection	780,836	78,251	(3,995)	855,092
Protective inspection	173,344	1,260	-	174,604
Total public safety	<u>\$ 954,180</u>	<u>\$ 79,511</u>	<u>\$ (3,995)</u>	<u>\$ 1,029,696</u>
Transportation	3,213,803	975,324	(559,216)	3,629,911
Recreation	14,574,481	123,689	(15,353)	14,682,817
Construction in progress	<u>8,893,743</u>	<u>(1,473,054)¹</u>	<u>-</u>	<u>7,420,689</u>
Total general fixed assets	<u>\$39,832,626</u>	<u>\$2,396,076</u>	<u>\$(581,700)</u>	<u>\$41,647,002</u>

¹ Includes additions of \$771,424 representing construction in progress and transfers of \$2,244,478 as a result of completed construction projects.

CITY OF ROCKVILLE, MARYLAND

Schedule of General Fixed Assets
By Function and Activity
As of June 30, 2001

	<u>Total</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>
<u>General Government</u>					
Mayor, Council, and Executive	\$ 158,722	\$ -	\$ -	\$ -	\$ 158,722
Staff agencies:					
Legal	19,840	-	-	-	19,840
Planning	122,285	-	-	-	122,285
Finance	1,748,631	-	-	-	1,748,631
Engineering	207,412	-	-	-	207,412
Administrative services	18,496	-	-	-	18,496
Community relations and office services	604,179	-	-	-	604,179
Public building	10,888,113	2,202,492	7,572,499	541,395	571,727
Total staff agencies	<u>\$13,608,956</u>	<u>\$2,202,492</u>	<u>\$ 7,572,499</u>	<u>\$ 541,395</u>	<u>\$3,292,570</u>
Total general government	<u>\$13,767,678</u>	<u>\$2,202,492</u>	<u>\$ 7,572,499</u>	<u>\$ 541,395</u>	<u>\$3,451,292</u>
<u>Public Safety</u>					
Police protection	855,092	-	-	-	855,092
Protective inspection	174,604	-	-	-	174,604
Total public safety	<u>\$ 1,029,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,029,696</u>
Transportation	3,629,911	39,511	34,505	231,671	3,324,224
Recreation	<u>15,799,028</u>	<u>5,644,008</u>	<u>4,171,104</u>	<u>4,136,877</u>	<u>1,847,039</u>
Total general fixed assets allocated by function	<u>\$34,226,313</u>	<u>\$7,886,011</u>	<u>\$11,778,108</u>	<u>\$4,909,943</u>	<u>\$9,652,251</u>
Construction in progress	<u>7,420,689</u>				
Total general fixed assets	<u>\$41,647,002</u>				

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